



## **REPORT TO EDC**

**Report Prepared by: Nancy Malecha**

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**Date:** June 1, 2020

**Subject:** Consider an Offer for the Purchase of Real Property in the Heart of the Good Life Development

**Report:** At the May 19<sup>th</sup> EDC Meeting, the Commission reviewed and discussed the business proposal from Xcel Energy to purchase four acres in the Heart of the Good Life Development directly west of the City's Public Works Facility. The following is further information the EDC requested and should consider as a recommendation is made to the City Council.

### **Facility Pictures**

From Tim Mauseth, Xcel Energy – *“Unfortunately we do not have renderings of what the facility will look like but I have the next best thing. Attached is a slide deck with pictures of several different facilities within the Xcel Energy portfolio (Exhibit 1). While some of these sites have slightly different uses or are bigger than what we’re proposing to build in Pequot Lakes, they are good representations of our facilities. Also keeping in mind with the design requirements of the Patriot Development Ordinance, a more varied façade design could be incorporated (similar to façade of Gas Training Center pictured on slide 1) into this project. Hopefully this will provide the EDC board members a good idea of what to expect and ease their concern regarding the esthetics of the facility. Lastly, as the project moves forward we will continue working with the City for site and design approval during the permitting process.”*

### **Vehicle Weights**

From Tim Mauseth, Xcel Energy – *“Regarding the question of vehicle weights. The heaviest vehicle would be the “freightliner trucks” which we have 2 of at this location (image below is an example of this type of truck). They have a gross vehicle weight of 33,000 lbs. which comes out to 8.25 tons/axle.”*



### Per Foot Cost

From Tim Houle, City Engineer – *“I will provide some information in regards to questions about a per acre and per foot cost related to the possible Xcel Energy development.*

*The attached phasing map (Exhibit 2) shows one potential way to lay out the lots and one potential way to lay out the proposed sanitary sewer extensions, watermain extensions, storm drainage system, and curb and guttered streets. We then took all of the costs and divided them into the total lot acreage to come up with the \$42,350 per acre infrastructure estimated cost. This is an average for the whole site. You will see that the amount per acre varies from phase to phase. Again, we set this HOTGL development up to be flexible and to ‘build as we go’ / get new developers. This is a 2018 Study. Construction costs increase roughly 5% per year. So, I would take these 2018 estimated costs and apply a  $(1.05^3 =) 1.158$  factor. To get orientated on the attached map, north is to the right. Derksen Road runs east-west along the north side (right on the pdf) of the HOTGL. Derksen Road was re-constructed during the 4-lane Hwy 371 construction and used as a temporary re-route / detour so, structurally / pavement thickness-wise, it can handle a lot of traffic. Morehouse Drive (the map only shows MOR towards the lower right) and Derksen Road is where the sanitary sewer and watermain presently end. Our plan would be to extend these along the south side of Derksen to the new (yellow) road that would head south into the HOTGL. Lots 2 and 3 on the attached – again, these are just concepts; nothing platted or set in stone yet – are basically where Xcel Energy is proposing to put their new development.*

*We would propose to basically construct the Phase 1 (bordered in green on the attached) improvements in conjunction with the Xcel Energy purchase and site development:*

- Sanitary sewer extension from Morehouse and Derksen along the south side of Derksen to the new road into the HOTGL and then south under the new road about 425 feet into the HOTGL.*
- Watermain extension from Morehouse and Derksen along the south side of Derksen to the new road into the HOTGL and then south under the new road about 425 feet into the HOTGL.*
- New storm sewer along the new road about 425 feet into the HOTGL (the outlet of which will still need to be figured out).*
- New curb and guttered street about 425 feet into the HOTGL.*

*If we take the Phase 1 estimated 2018 cost of \$257,000 x the 1.158 factor = Phase 1 estimated 2020 of (rounded) \$300,000. There are a total of 6.7 acres proposed in Phase 1. So, if you took the estimated infrastructure cost of \$300,000 divided by 6.7 acres, it works out to about \$44,775 per acre. I believe Xcel Energy said they would like 4 acres. So, if you took the estimated infrastructure cost of \$300,000 divided by 4 acres, it works out to \$75,000 per acre. Big-picture-wise, I would lean towards using all of Phase 1 acreage in calculating an estimated infrastructure cost (i.e. just under \$45K per acre).*

*If we look at the footage of the new road (not including the footage of extending utilities from Morehouse along the south side of Derksen to the new HOTGL road) into the HOTGL, we have 425 feet x 2 sides = 850 feet of frontage. So, if you took the estimated infrastructure cost of \$300,000 divided by 850 feet of frontage, it works out to about \$353 per front foot. If Xcel Energy has 425 feet of frontage on their side of the new HOTGL road, this works out to (\$353 per foot x 425 feet) about \$150,000. Remember, the attached only estimates infrastructure costs; it does not account for the City's land costs.*

*It should be noted that the Derksen pavement thickness was increased during the 4-lane Hwy 371 construction, so we believe this road is set up for business / industrial park traffic. The new road going south off Derksen into the HOTGL development will also be structurally set up for business / industrial park traffic.*

*This has been years and years ago, but I was talking with a financial advisor about business and industrial parks. This advisor said that you might need to negotiate and sell the first couple lots at a bit of a "discount" to get some new owners into a*

*new development, then you start to ratchet up negotiations a little each transaction to cover more of the costs. Hopefully, the BDPI grant application will be successful in bringing in some monies (and maybe also in the future as future developers / new jobs are created)."*

#### Tax Revenue Generation

Attached is financial analysis information from the City's financial consultant, Jason Murray of David Drown Associates, regarding market value, tax impact, and tax increment financing for this potential project (Exhibit 3).

#### Planning Commission Feedback

The following is an excerpt of the May 21<sup>st</sup> Planning Commission Meeting minutes regarding the Xcel Energy business proposal. *"Mr. Burslie explained the Staff Report. Timothy Mauseth, representing Xcel Energy, was present virtually via Zoom and explained their plan to construct a new service center next to the Public Works Facility on Derksen Road.*

*Discussion ensued regarding the Proposal:*

- *Possibility of turning the plan so the fenced in storage area be along Derksen Road so it does not show to the south lot;*
- *Appearance of the location;*
- *Operations of the building;*
- *What the storage area will consist of, i.e. equipment / supplies;*

*The consensus of the Commission is the proposal is a good idea for the Heart of the Good Life Development."*

#### Broker Feedback from Close Converse

The following is an excerpt of the March 17<sup>th</sup> EDC Meeting minutes regarding Close Converse's perspective regarding pricing. *"Ms. Malecha stated that Mr. Grotzke also included comparisons with Brainerd and Baxter noting that they both are offering land at \$1 per square foot. He noted that the pricing Pequot Lakes is marketing at is good but a potential buyer may use the other cities as leverage on their offer."*

### Broker Feedback from Xcel Energy

From Tim Mauseth, Xcel Energy – *“As we discussed on the phone, I agreed to provide some insight behind our offer price. Xcel obtained a Brokers Opinion of Value for the property in the Heart of the Good Life Development. The broker’s work included looking at comparable transactions and market listings in the area. There was not an abundance of meaningful recent land sale comps but the more applicable comps were in the \$28,000-\$47,000/acre range. This broker gave a range for the HGLD of \$40-45k/acre. I also received a second opinion from a local broker (Brainerd Lakes Area) and he thought the \$65k/acre price point was high and noted that the City of Brainerd was selling shovel-ready sites at \$45k/acre. Lastly, I conducted research on prices for state wide shovel ready sites. I found 11 sites ranging from \$25k/acre in Duluth to \$83k/acre in Becker. There was an outlier in Moorhead with a price of \$130k/acre which we believed was an error in the listing. This information solidified the Brokers Opinion of Value at \$40-45k/acre to be a reasonable purchase price. Our offer of \$42k/acre is negotiable and are willing to consider a counter offer from the City.”*

### Miscellaneous Information

The following are other items for the EDC to consider.

- Current City water and sewer utilities are in very close proximity to the proposed Xcel Energy site.
- Existing Xcel Energy employees may be leaving the amenities and services in the Brainerd and Baxter areas and utilizing Pequot Lakes’ amenities and services such as gas, groceries, meals, etc.
- Xcel Energy would be an exceptional anchor company to kick off our Heart of the Good Life Development and the potential economic development opportunities in our area.

Based on all of the above information, Tyler Glynn and I are recommending the EDC accept the business proposal from Xcel Energy and recommend as such to the City Council.

**EDC Action Requested:** EDC motion recommending the City Council accept the business proposal from Xcel Energy for four acres in the Heart of the Good Life Development, immediately west of the City’s Public Works Facility, at a price of \$\_\_\_\_\_/acre.